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March 31, 1994

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Via Hand-Delivery

William F. Caton, Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

Re: ET Docket No. 93-7: Report of Ex Parte Discussion

Dear Mr. Caton:

On Thursday, March 31, 1994, representatives of the consumer electronics industry met with Michael Katz, Chief Economist, to discuss the above-referenced proceeding. The industry representatives participating in the meeting were George Hanover and Barbara McLennan, Vice Presidents (for Engineering and for Government and Legal Affairs, respectively) of the Consumer Electronics Group of the Electronic Industries Association, Jim Bonan, Chairman of the Consumer Electronics Caucus and Co-Chair of the Cable-Consumer Electronics Compatibility Advisory Group, and the undersigned.

The positions presented during the meeting are already reflected in the public record in the form of comments, reply comments and previous ex parte reports. The presentation summary and Congressional Record excerpts provided to Dr. Katz have already been placed in the record. In addition, a copy of the attached article and editorial from the current issue of Business Week were also provided.

The discussion focused primarily on four points: (1) the importance of developing standards for digital delivery of cable services, (2) the need for cable services to be compatible with the Decoder Interface, (3) the value to consumers of having the opportunity to procure from their cable companies set-back decoders that perform only descrambling functions, and (4) the desirability of enabling consumers to procure television receivers that include all, none, or some of the characteristics associated with cable-ready receivers.

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This letter and the extra copy of this letter are being transmitted in accordance with Section 1.206(a) of the Commission's rules. Please let me know if you have any questions.

Sincerely,

Jim

James L. Casserly

Enclosure

cc: Michael Katz

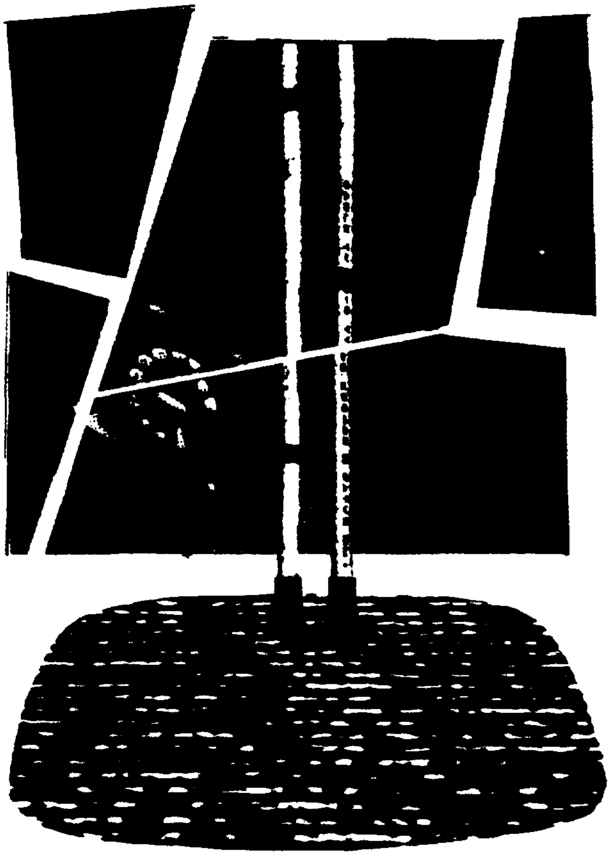
Commentary/by Mark Landler and Peter Coy

WHY CABLE COMPANIES CAN'T KEEP TYING UP THE BOX

When the titans of cable TV squabble among themselves, they often air more dirty laundry than they expect. Consider Sumner M. Redstone's antitrust suit against John C. Malone.

Redstone, the chairman of Viacom Inc., sued Malone last September after he backed Barry Diller in a competing bid for Paramount Communications Inc. But the case is now focusing attention on a broader concern about the industry: Are the cable companies impeding new technologies in the delivery of advanced video services? The Justice Dept. has started nosing around the issue. And lawmakers on Capitol Hill may introduce legislation to guarantee free competition among makers of cable converter boxes.

Such efforts to pry open cable technology are long overdue. Cable executives have been ahead of the curve in foreseeing the convergence of cable, telecommunications, and high technology. But when it comes to the actual gadgetry, they revert to old habits, seeking an iron grip over every step of their distribution. On an Information Highway teeming with new players, that's no longer tenable. As telephone and computer companies can attest, open systems serve to stimulate—not depress—innovation.



PICOLINS STUDIO

DOUBLE VISION. Nowhere does the cable industry's approach seem more outmoded than in its jealous hold over the box that sits on your TV and the technology to transmit signals to it. In its suit, Viacom says Malone and his company, Tele-Communications Inc., have forged an unholy alliance with General Instrument Corp., which makes boxes and digital compression systems. By throwing its weight behind GI's proprietary technology, the suit alleges, TCI has made it virtually impossible for programmers such as Viacom to use any other system. Now, Justice is also looking into GI.

No question, cable companies had good intentions in developing the box. They were adding more channels than the dials on TV sets could accommodate. Now, though, most sets can tune in dozens of channels. They also have tantalizing new features such as picture within a picture: You can watch a movie and keep tabs on a football game without changing channels.

The trouble is, converter boxes override such features and render them useless. That has manufacturers of TV sets up in arms: "If you've bought a top-of-the-line set, you don't want to bring it home and find it doesn't work," says Barbara N. McLennan, staff vice-president for government affairs at the Electronic Industries Assn.

Seems logical. But cable executives say a separate box is the easiest way to deliver a new generation of services. Among other things, they worry that if TV sets contain all the intelligence now in the box, cable operators won't be able to promote their programs effectively. The EIA and the National Cable Television Assn. are bickering about whether the box should offer an on-screen menu of channels. TV makers say no, they can build it into the set. But cable companies want to offer menus themselves: "We have people who have ideas about how these should look and feel," says Wendell Bailey, senior vice-president for science and technology at the NCTA.

Such issues may seem trivial, but they threaten to bog down talks between the cable and electronics industries that are being held by order of the Federal Communications Commission. The FCC would like the two industries to work out their differences before it sets rules on technology in early April. There's room for compromise, because the cable industry isn't presenting a united front. Scientific-Atlanta Inc., the No. 2 maker of boxes, says it is committed to industry standards. And the NCTA's Bailey says he wants a deal.

"THE PATHWAY." The cable industry has less to fear from an open system than it thinks. Take telephone companies: Ma Bell and her offspring long ago surrendered control of the equipment in the home. But the Baby Bells have managed to find ways to introduce all sorts of new services—such as call waiting, caller ID, and so on—that don't depend on controlling the devices.

You can't really blame cable executives for attaching so much importance to the box. "In a multimedia future, the box will be the pathway through which everything flows," notes Representative Rick Boucher (D-Va.). For that very reason, he says: "It should not be monopolized by a single company."

In the end, cable's proprietary stance is not even in its own interest: Pursuing an open system would unleash a flood of innovative products and boost the traffic on the Information Highway. As one of its primary toll-takers, cable can only benefit.

Landler covers the media business and Coy watches technology for BUSINESS WEEK.

Editorials

ALLOWING JAPAN TO SAVE FACE—AND OPEN MARKETS

Just when it appeared that Tokyo was giving a firm "No" to the Clinton Administration's demand that it open its markets, the outlines of a possible deal are now visible. The Ministry of International Trade & Industry (MITI) is floating a trial balloon suggesting that a "private" deal can be worked out between the Japanese and U. S. auto industries. It's a face-saving offer the U. S. should seize immediately.

But the Administration must play its cards shrewdly—just as it played its Motorola hand. The U. S. negotiating team achieved its goals of measurable benchmarks and deadlines for expanding Motorola's cellular-phone market share. The Japanese team was able to pretend that the government merely "confirmed" a private agreement between two private companies, even though officials from the Ministry of Posts & Telecommunications and Ichiro Ozawa, a top government politician, masterminded the negotiations.

Autos should afford the next big breakthrough. It's no accident that Toyota Chairman Shoichiro Toyoda happened to say recently that his company is "voluntarily" setting a target for buying more U. S. auto parts. Nissan Chairman Yutaka Kume offered to set purchasing targets as well.

This is good news, and U. S. Ambassador Walter F. Mondale, who played a key behind-the-scenes role in the Motorola talks, is jumping on it. Since autos constitute two-thirds of the U. S. trade deficit with Japan, an agreement, "voluntary" or not, "private" or not, would be a major victory.

The next step is crunching the numbers. Toyota, Honda, and Nissan import more than $6 billion in auto parts and $4 billion in engines into the U. S. today. Since the U. S. is the low-cost producer, they could cut their import costs significantly by shifting to made-in-the-U.S.A. parts and engines.

Much the same is true for their home market. Toyota is offering to boost its imports of U. S. parts by 6% a year. That's a beginning. The U. S. should insist on a 20% annual increase for the next four years. MITI appears willing to unofficially broker the negotiations and oversee implementation.

The U. S. should also push Japanese auto companies to get their dealers to sell American cars. But if Ford, General Motors, and Chrysler really want to sell in Japan, they must establish their own distribution systems.

The Clinton Administration seems to be getting results in its Tokyo talks. This is not the time for Washington to punt.

MOTOROLA U HAS A LESSON FOR ALL

Motorola Inc. wasn't invited to participate in the recent Detroit jobs conference where seven major industrial nations met to discuss job growth. Pity. With so much discussion about education and job skills, one of America's most successful high-tech companies could have taught the government bureaucrats some real-life lessons.

Motorola is best known for its obsession with quality. It was the first large company to win the Malcolm Baldrige National Quality Award. But Motorola's top managers have now concluded that global competitors will soon catch up in the quality game. By the turn of the century, quality will be a given. Creativity, adapatability, and responsiveness will decide the winners and losers in the year 2005 (page 158).

Those attributes can only be developed through a company's workforce. So Motorola has decided that lifetime learning is critical to generate the knowledge, independence, and team discipline it will need for the future. It could soon be spending $600 million a year (the price of a new chip plant).

Motorola runs its own school system, Motorola U., with 14 branches around the world, including Tokyo. There is very little learning for its own sake. Instead, students are taught specific tasks, such as how to run a robot, as well as critical thinking and problem-solving. The company also runs a large apprenticeship program where new employees work along more experienced workers.

Germany has a long tradition of worker training and apprenticeship. Between 1975 and 1991, its per capita gross national product—the broadest measure of living standards—rose at 2.4% a year. The U. S.'s increased by 1.5% a year. For Motorola, education and training are competitiveness tools to enhance the bottom line. For America, they are the means to a better life for all.

LET'S KEEP THE INFO HIGHWAY FREE AND CLEAR

The "divorce" of Bell Atlantic Corp. and Tele-Communications Inc. provides an unexpected moment to take stock and contemplate the future of the Information Highway. For in their urge to merge, the two giants failed to ponder the consequences of uniting two very different corporate—and technological—cultures.

To their credit, the phone companies have long been champions of open systems, to which everyone who can pay has equal access. AT&T and the Baby Bells are common carriers: They act as pipelines connecting anyone. They have applied the same open approach to their technology, long ago surrendering control of equipment used in the home. The result? A raft of innovation, from call waiting to inexpensive answering machines that allow users to retrieve their messages by using any touch-tone phone.

In contrast, cable companies decide what is transmitted over their wires. They continue to own the TV converter box in each home and thus control the technology that passes through the TV, such as picture-in-picture features. That's a lot of power. Whoever controls the box controls the interface between the consumer and the marketplace.

A proprietary approach to technology would only slow the development of the Information Highway and delay the new services consumers might want. If there is going to be one guiding principle for the Info Highway, this should be it: Keep it open for innovation.